

Fairfax County Economic Index

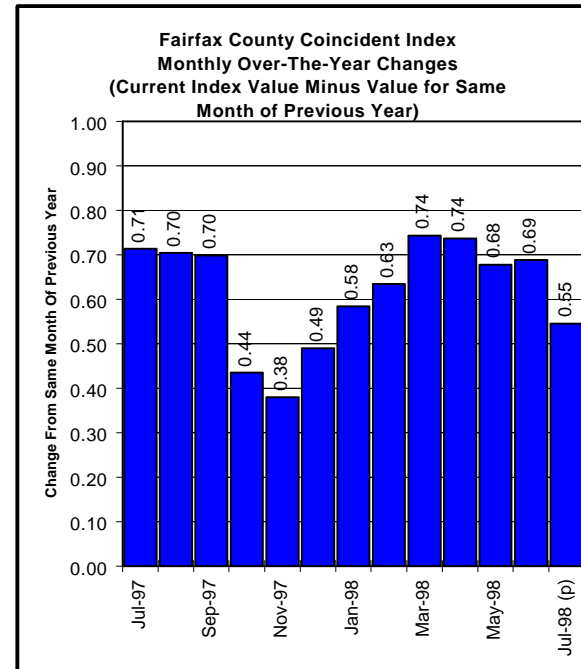
Volume II, Number 4

SEPTEMBER 1998

Economy Remains Steady Outlook Clouded By Growing Uncertainty

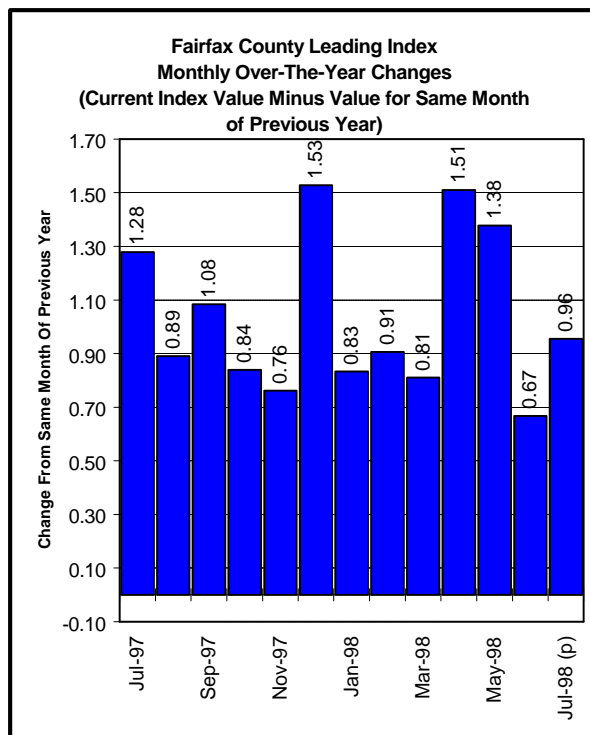
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased just 0.01 percent from its June level which had been unchanged from May. Over the past three months, the Coincident Index (103.85) has experienced marginal changes after having increased over the previous five consecutive months and reaching its all time high level in April. This flat pattern of recent performance suggests that the County's economy has reached a plateau, at least temporarily, following many months of expansion. Still, three of the Index's four components were up in July.

- Total employment increased following a decline in June and has now gained in nine of the last ten months;
- Retail sales tax receipts increased for a second month; and
- Consumer confidence increased in July for a sixth month; while
- Transient Occupancy Tax collections



Source: GMU Center for Regional Analysis.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy 9 to 12 months in advance, increased by 0.09 percent after having declined in four of the previous five months. While the Index remains high (105.03), its volatile performance



Source: GMU Center for Regional Analysis.

moderate later in the year. In July, two of the Index's five components were responsible for its gain.

- New automobile registrations increased following two monthly declines and five decreases in seven months; and
- Residential building permits registered a second consecutive strong monthly increase; while
- Initial claims for unemployment insurance increased (worsened) for the second month;
- Consumer expectations (consumer confidence six months hence) fell for a second month; and
- The mean value of residential building permits

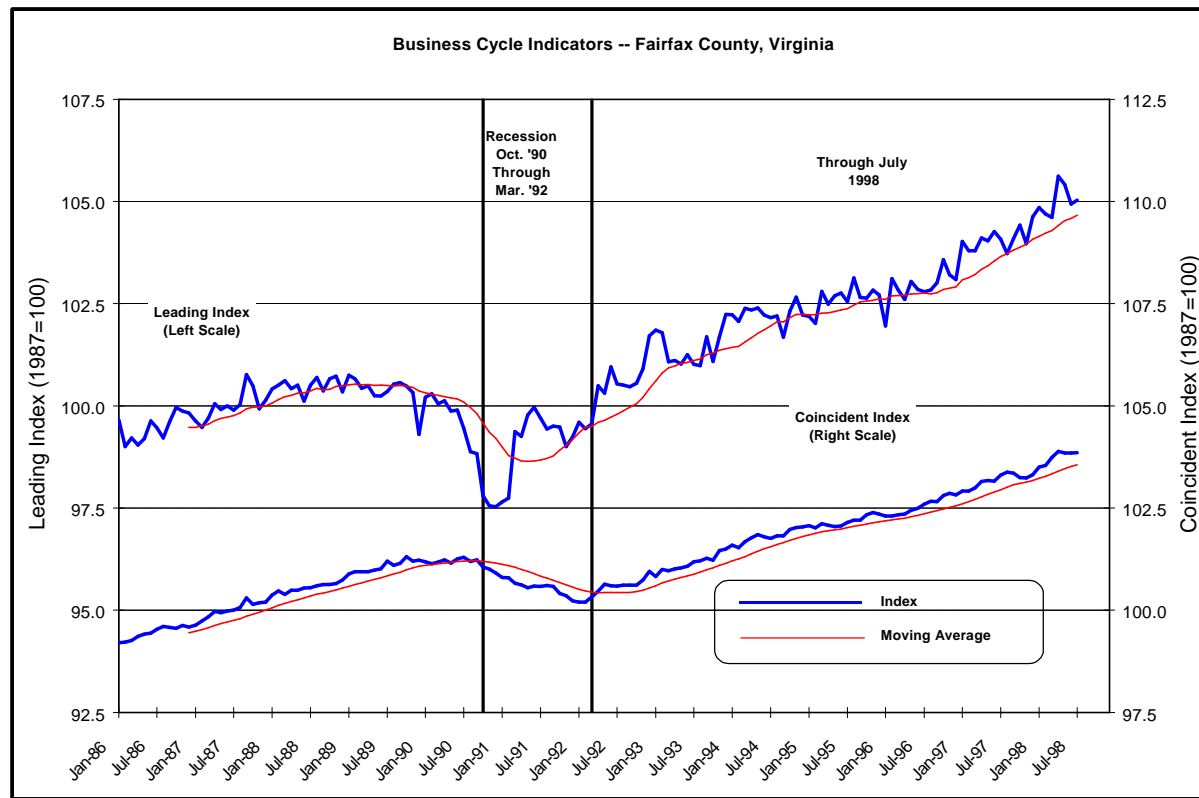
CURRENT CONDITIONS

Even as Fairfax County's economic growth rate stabilizes, the economy continues to demonstrate its fundamental strength. Job growth remained strong in July with the monthly over-the-year gain estimated at 17,142 jobs. While this total is down slightly from the annualized gains of recent months (which have averaged near 20,000), July's job growth rate of 3.8 percent still substantially exceeded the region's job gain of 2.3 percent.

The County's strong job gains also continue to far outpace its labor force growth; from July 1997 to July 1998 the labor force increased just 1.5 percent. The consequence of rapid job growth and slower labor force gains was a further drop in unemployment. In July, the County's unemployment rate was 1.7 percent down from 2.3 percent a year ago. This compares favorably to the 3.1 percent metropolitan unemployment rate and the all-suburban rate of 2.4 percent in July.

The strength of the County's economy is also seen in its growth in retail sales. Sales tax receipts adjusted for inflation and seasonal variation, were up 13.3 percent from the previous July compared to a gain of 5.1 percent nationally for the same period. Paralleling this gain in retail sales has been the upward trend in consumer confidence that peaked in July.

However, just released consumer confidence data for August show that confidence declined for the first time since January. This softening of confidence has been expected due to the turmoil in both the U. S. stock markets and the world's financial markets. The volatility of the stock markets and their substantial loss of value over the past two months has undercut and could continue to dampen consumer confidence. The reversal of the wealth effect could reduce consumer spending at a critical time in the year when holiday spending helps to propel the



Source: GMU Center for Regional Analysis.

NEAR-TERM OUTLOOK

The growing uncertainty in world financial markets was reflected in the decline in consumer expectations (consumer confidence 6 months hence) in June and again in July. Declining expectations tend to result in weaker sales of big ticket items, such as cars and houses. However, in July neither auto or housing sales appear to have suffered from an erosion of long-term confidence. Still, auto sales, which rebounded in July, have been weak this year. July's sales recover could have been solely a result of end-of-the-model-year promotions.

The strong gains in residential building permits point more to builders' optimism than to buyers'. It is notable that the mean value of

range of their inventory, possibly to reduce exposure at the upper price range, in anticipation of softer future market conditions.

At this point in the expansion, now more than seven years old, consumer spending is the controlling force shaping the economy's future growth trend. Additionally, on a short-term basis, this is especially important during the year's final quarter. Strong retail sales during the fourth quarter help to off set the other segments of the economy that naturally trend down at the end of the year helping to carry the economy's gains over into the next year. If consumer confidence tracks along with consumer expectations, both trending downward as consumers become more concerned about the economy, retail sales could suffer and contribute to a broad-based softening of the economy.

Fairfax County, Virginia Economic Indicators

Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-98 Prelim.	Jun-98 Final	Jul-97 Final	Jun-98 to Jul-98	Jul-97 to Jul-98
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	103.85	103.85	103.31	0.01	0.53
Leading Index (1987 = 100)	105.03	104.93	104.07	0.09	0.92
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	471,831	468,289	454,689	0.76	3.77
<i>Total Covered Employment (Unadjusted)</i>	<i>474,294</i>	<i>475,000</i>	<i>457,062</i>	<i>-0.15</i>	<i>3.77</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	315.2	337.7	289.3	-6.66	8.95
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>462.1</i>	<i>433.9</i>	<i>408.5</i>	<i>6.50</i>	<i>13.12</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,615.4	7,441.4	6,718.8	2.34	13.34
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>8,986.6</i>	<i>9,611.3</i>	<i>8,090.9</i>	<i>-6.50</i>	<i>11.07</i>
South Atlantic Consumer Confidence	178.7	176.4	159.5	1.30	12.04
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,287	5,274	5,853	19.20	7.42
<i>Automobile Registrations (Unadjusted)</i>	<i>7,148</i>	<i>5,941</i>	<i>6,654</i>	<i>20.32</i>	<i>7.42</i>
Initial Unemployment Claims (Seasonally Adjusted)	839	806	842	4.05	-0.36
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>839</i>	<i>765</i>	<i>842</i>	<i>9.67</i>	<i>-0.36</i>
South Atlantic Consumer Expectations	117.2	120.2	109.7	-2.50	6.84
Residential Building Permits (Number of Units, Seasonally Adjusted)	1,106	779	508	41.98	117.60
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>1,162</i>	<i>882</i>	<i>534</i>	<i>31.75</i>	<i>117.60</i>
Average Residential Building Permit Value (\$='87 Per Unit, Seasonally Adjusted)	48,541	60,183	65,248	-19.35	-25.61
<i>Average Residential Building Permit Value (\$=Current Per Unit, Unadjusted)</i>	<i>67,394</i>	<i>84,659</i>	<i>88,034</i>	<i>-20.39</i>	<i>-23.45</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	541,530	537,192	533,460	0.81	1.51
<i>Total Labor Force (Unadjusted)</i>	<i>554,126</i>	<i>545,486</i>	<i>545,868</i>	<i>1.58</i>	<i>1.51</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.66	1.72	2.30	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.65</i>	<i>1.93</i>	<i>2.30</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Average Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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